

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



CORRECTED  
FISCAL NOTE

HB 467 - SB 752

March 10, 2015

**SUMMARY OF BILL:** Exempts from state and local sales and use tax: (1) the sale, use, storage, or consumption of parts, components, accessories, materials, equipment, and supplies that are sold to or sold, used, or installed by an authorized large aircraft service facility; (2) all repair and refurbishment service labor performed with respect to large aircraft mainframes, large aircraft engine equipment and large aircraft accessories, where the repair services on the mainframes, equipment, and accessories are initiated, contracted, performed, or completed in or by an authorized large aircraft service facility within Tennessee; and (3) all sales and purchases of large aircraft and related equipment, and their use, storage, or consumption within this state following the sale and purchase, where the large aircraft and related equipment have or are intended to have a situs outside of this state following the sale and purchase, and where the large aircraft and related equipment are in and remain within this state following the sale and purchase solely for purposes of repair and refurbishment services by an authorized large aircraft service facility, and are in fact removed from this state within fifteen (15) days from the completion of the repair and refurbishment services.

Establishes that the exemption under (1) above does not apply to fuel and other petroleum products or to shop equipment and tools.

Defines an “authorized large aircraft service facility” as a repair station located within Tennessee that is engaged in repair and refurbishment services of large aircraft mainframes, large aircraft engine equipment, and large aircraft accessories under a valid air agency certificate issued by the Federal Aviation Administration in accordance with 14 CFR Part 145 of the federal aviation regulations, with an authorized class rating of Air Frame Class IV, and organization designation authority, or such other similar or successor certificate, rating, and authority as the federal aviation administration may provide for from time to time.

**ESTIMATED FISCAL IMPACT:**

On February 28, 2015, a fiscal note was issued estimating a fiscal impact as follows:

*Other Fiscal Impact – Any fiscal impact on state and local tax government is considered forgone revenue. The extent of any forgone revenue cannot be reasonably determined as: a) there are currently no facilities located in Tennessee that qualify for these proposed tax exemptions; and b) there is no readily available data on the volume of transactions at such facilities in other states that would qualify for these proposed tax exemptions. Such impacts are dependent on multiple unknown factors.*

Based on additional information provided by the Department of Revenue, the fiscal impact has been corrected to more accurately reflect the impact of the proposed legislation. The corrected fiscal impact is as follows:

**(CORRECTED)**

**Forgone State Revenue – \$269,900**

**Forgone Local Revenue – \$110,100**

Assumptions:

- By enacting any type tax exemption prior the tax-exempted activity occurring in the state, the result is a potential forgone revenue opportunity. In that case, the tax-exempted activity could not be taxed should it subsequently occur in the state. The degree to which any future tax revenue is forgone depends on the whether the tax-exempted activity would have occurred in the state had it remained taxable.
- According to the Department of Economic & Community Development (ECD), there are currently 77 repair stations in the United States that meet the criteria to qualify as authorized large aircraft service facilities, as established by the proposed legislation. However, none of such facilities are currently located in Tennessee.
- Based on information provided by the Department of Revenue, a typical large aircraft service facility will have an estimated \$4,000,000 in sales transactions for equipment, parts, materials, accessories, etc., that will be exempt from the state and local sales tax under this bill. The single article state sales taxes will not apply to any such sales.
- If a large aircraft service facility were to start up in or relocate to Tennessee in the future, any impact on the state or local revenue is cautiously considered forgone revenue for this analysis.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring amount of forgone state revenue is estimated to be \$269,872  $[(\$4,000,000 \times 7.0\%) - (\$4,000,000 \times 7.0\% \times 3.617\%)]$ .
- The total recurring amount of forgone local revenue is estimated to be \$110,128  $[(\$4,000,000 \times 2.5\%) + (\$4,000,000 \times 7.0\% \times 3.617\%)]$ .

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Jeffrey L. Spalding, Executive Director

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